



News Release

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IRS CAUTIONS TAXPAYERS ABOUT NEW LINE ON TAX FORMS

WASHINGTON – The Internal Revenue Service says many early filers have made an error related to a new line on the federal tax form. This line is for the Rate Reduction Credit, which taxpayers use if they did not receive last summer's Advance Payment in the maximum amount for their filing status.

"This credit is the only new line on the basic tax forms. Taxpayers should read its instructions carefully so they get the proper benefits," said IRS Commissioner Charles O. Rossotti. "Errors can delay processing and we want everyone due a refund to get it as quickly as possible."

Some taxpayers are putting their Advance Payment amount on the credit line, when they should be leaving the line blank. If you have already received the maximum amount for your filing status, just skip the Rate Reduction Credit line on your tax form. The maximum amounts are:

- \$300 for a single person or a married person filing separately;
- \$500 for a head of household;
- \$600 for a married couple filing jointly or a qualifying widow(er).

Other taxpayers, who should claim a credit amount, are leaving the line blank. These people received less than their filing status maximum amount as an Advance Payment and their 2001 income – generally higher than it was in 2000 -- entitles them to claim the credit on their return.

The credit and the Advance Payments are how the new law gives one of its main benefits for 2001 – a 10 percent tax rate. Instead of having people wait until they file their 2001 tax returns to get a larger refund, the law provided for Advance Payments to be made last year, based on the returns for 2000. If the 2001 income and filing status would give a larger benefit than the Advance Payment, the taxpayer may claim the difference as a Rate Reduction Credit on the 2001 return.

Dependents were not eligible for Advance Payments or the Rate Reduction Credit, but they may get the benefit of the lower tax rate by completing the "Tax Computation Worksheet for Certain Dependents" in the tax instructions.

Taxpayers who made an error related to this credit on their returns should wait to see if the IRS catches it during processing. If the IRS does not contact them by the time they receive their refund, they may file an amended return to correct the error.

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The IRS offered these answers to some frequently asked questions about the Rate Reduction Credit and the Advance Payments:

Q1. How can I find out if I can claim the rate reduction credit?

A1. Use the Rate Reduction Credit Worksheet in the 2001 tax return instructions to find out if you are eligible to claim the credit and, if you are, the amount of the credit.

Q2. What do I do if I need help in completing the worksheet or want additional information about the Rate Reduction Credit?

A2. For help in completing the worksheet, call 1-800-829-1040. For more information about the credit, call TeleTax at 1-800-829-4477, press "3" to listen to recorded tax topics and choose topic 609.

Q3. How do I know the amount I received as an Advance Payment of my 2001 taxes?

A3. The IRS sent taxpayers a notice informing them of the amount they would receive and the date to expect the check.

Q4. What do I do if I don't remember the amount or misplaced the notice?

A4. Call TeleTax at 1-800-829-4477 and follow the instructions. It is fast and easy. Follow the prompts for a touch-tone phone, then choose English or Spanish. You will be asked to press "1" if you want to know the amount of your Advance Payment, more commonly known as "rebate." Continue to follow the instructions -- entering your social security number, filing status and number of exemptions on your 2000 return -- and you will be told the amount of your Advance Payment.

Q5. What do I do if my Advance Payment was the same as the maximum amount for my 2001 filing status?

A5. You won't have to do anything -- just leave the Rate Reduction Credit line blank on your tax return. The maximum amounts are \$300 for a single filer or married person filing separately, \$500 for a head of household and \$600 for a married couple filing jointly or a qualifying widow(er).

Q6. What if I did not receive the full Advance Payment that I believe I was entitled to?

A6. Use the Rate Reduction Credit Worksheet to figure what, if any, credit you may now claim. Enter the result, if more than zero, on Line 47 of Form 1040, or Line 30 of Form 1040A, or Line 7 of Form 1040EZ. If you, or your spouse if filing jointly, can be claimed as a dependent on another person's 2001 return, you cannot claim the credit.

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Q7. I did not get any Advance Payment because my 2000 income was too low and I had no tax. Will I be able to claim the Rate Reduction Credit?

A7. Perhaps -- check the Rate Reduction Credit Worksheet to see if your 2001 income and filing status qualify you for the credit. If you still have no taxable income, you can't claim the credit. You also don't qualify if you, or your spouse if filing jointly, can be claimed as a dependent on another taxpayer's 2001 return. (See Q8.)

Q8. I file my own tax return and my parents claim me as a dependent on their return. May I claim the Rate Reduction Credit?

A8. No, dependents cannot claim the credit and were not eligible for Advance Payments. But they may get the benefit of the tax rate cut by completing the Tax Computation Worksheet for Certain Dependents in the instruction book for the form they use. If you were a dependent on another taxpayer's 2000 return but were not a dependent for 2001, complete the Rate Reduction Credit Worksheet to see how much, if any, credit you may claim.

Q9. What if I did not receive my Advance Payment because I still owed money on a previous tax year?

A9. You still received the benefit of the Advance Payment even if all or part of it was withheld to pay back taxes, other federal debts, or past-due child support you owed. You should have received a notice explaining any such offset. If your Advance Payment amount was greater than the offset, you should have received the remainder in a check. You cannot claim the Rate Reduction Credit to recover the offset amount.

Q10. I moved last year and never received my Advance Payment check. Now I'm told the government can't send it to my new address. What can I do?

A10. The law provided for Advance Payment checks to be sent only until the end of 2001, so it's too late for the Treasury to send one now. You can get the same tax cut benefit by claiming the Rate Reduction Credit on your 2001 tax return.

Q11. My tax situation has changed since 2000 and my Advance Payment would have been less if it had been based on my 2001 return. Do I have to repay the extra amount I received?

A11. No. Even though your income may be lower or your filing status changed in 2001, the law provided that you would not have to pay back any resulting "excess" payment.